

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	
	)	
National Exchange Carrier	)	DA 04-3191
Association, Inc.	)	
2005 Modification of Average	)	
Schedule Universal Service Formulas	)	
	)	

**COMMENTS  
of the  
ORGANIZATION FOR THE PROMOTION AND  
ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES**

**I. INTRODUCTION**

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) hereby submits its comments regarding the National Exchange Carrier Association's (NECA) proposed modifications to the average schedule universal service formulas for 2005.<sup>1</sup> OPASTCO is a national trade association of more than 560 small telecommunications carriers serving rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 3.5 million customers. Approximately 35 percent of OPASTCO's members receive their universal service support based on NECA's average schedule formulas.

NECA's proposed Local Switching Support (LSS) formula and Universal Service

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<sup>1</sup> 2005 NECA Modification of Average Schedule Universal Service Formulas, National Exchange Carrier Association, Inc. (fil. Sept. 29, 2004) (2005 NECA USF Modification).

Fund (USF) expense adjustment formula both satisfy Parts 36, 54, and 69 of the Commission's rules. Therefore, OPASTCO recommends that the Telecommunications Access Policy Division promptly approve the formulas as filed to take effect on January 1, 2005, so that small average schedule companies can receive reasonably accurate support payments.

## **II. COMMENTS**

NECA's LSS formula is essential to enabling average schedule companies to lower their interstate access rates by removing settlements previously derived through the dial equipment minute (DEM) weighting support mechanism and recovering those amounts explicitly from the USF. Without the LSS formula, average schedule companies would not have a way in which to assign LSS to the USF, resulting in inequitable treatment vis-à-vis their cost company counterparts and necessitating access rates that are higher than they would be otherwise. NECA's proposed LSS formula continues to be in compliance with Part 54 of the Commission's rules which require that an LSS factor based on 1996 cost studies be applied to current costs.<sup>2</sup>

NECA's proposed USF expense adjustment formula is a fair, unbiased estimator of expense adjustments for smaller average schedule companies. The formula conforms to the Commission's Part 69 rules, which requires that formulas produce disbursements to average schedule companies that simulate the *disbursements* that would be received by representative cost companies.<sup>3</sup>

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<sup>2</sup> 47 C.F.R. §54.301(a).

<sup>3</sup> 47 C.F.R. §69.606(a).

NECA's proposed expense adjustment formula continues to relate expense adjustment per loop to loops per exchange. This is the same model form that the Division approved in 1998.<sup>4</sup> NECA's proposed formula for 2005 would produce \$44.1 million in annual expense adjustment payments to average schedule companies, which amounts to a \$15.4 million increase from their current level.<sup>5</sup> While this constitutes a material proportionate increase in payments, USF support payable to average schedule companies continues to be a small fraction of total support for all rural carriers.<sup>6</sup>

NECA's proposed increase in high-cost support payments to average schedule companies is based on two significant factors. First, the reported annual cost changes for average schedule companies continues to increase.<sup>7</sup> This is due to the fact that average schedule companies who qualify for high-cost support have experienced a notable increase in their actual costs per loop. Second, \$4.7 million of the proposed increase reflects the difference between the cost per loop formula approved for 2004 by the Commission and the expense adjustment per loop formula proposed by NECA for the same year.<sup>8</sup>

Furthermore, over the past three years, high-cost support payment levels have been affected by changes to the Commission's rules. As a result of the *Rural Task Force Order*, the rural carrier portion of the high-cost fund was increased or "rebased" and the National

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<sup>4</sup> *National Exchange Carrier Association, Inc. Proposed Modifications to the 1998-99 Interstate Average Schedule Formulas*, AAD 98-20, Order, 13 FCC Rcd 17351 (1998).

<sup>5</sup> 2005 NECA USF Modification, p. III-2-3. The increase would have been \$10.7 million, had the Commission approved NECA's USF expense adjustment formula for 2004.

<sup>6</sup> *Ibid.*, p. I-15-16.

<sup>7</sup> *Id.*, p. I-15.

<sup>8</sup> *Id.*, p. III-3.

Average Cost Per Line (NACPL) adjusted downward.<sup>9</sup> As a result of this change, many average schedule companies that did not receive payments before this “rebasings” now have cost per loop values that exceed 115 percent of the adjusted NACPL, and therefore began receiving payments going forward from July 2001.<sup>10</sup> Similarly, average schedule companies that had already been receiving payments have since seen increases in their support.

In addition, NECA’s proposed expense adjustment formula maintains the reduction limit method in the current formula.<sup>11</sup> This mechanism ensures that each average schedule company’s expense adjustment payment does not decline from the June 1998 level by more than \$2.22 per loop per month. At the same time, the reduction limit method protects against the possibility of companies receiving an unwarranted windfall by applying the reduction limitation only to line counts as of June 1998 and not to any additional lines acquired since that time.

Continuation of the reduction limitation is vital as NECA has indicated that without it, there would be a significant adverse impact on the smallest average schedule companies,<sup>12</sup> which could have ramifications for the provision of service in rural areas. As NECA has indicated, the limitation proposal has only a small effect on total expense adjustments.<sup>13</sup> NECA has also stated that it will reassess the reduction limitation as the definitions and

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<sup>9</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Fourteenth Report and Order, Twenty-Second Order on Reconsideration and Further Notice of Proposed Rulemaking, *Multi-Association Group (MAG) Plan for Regulation of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, Report and Order, 16 FCC Rcd 11244, 11262, 11268-11269, paras. 40, 55 (2001). (*Rural Task Force Order*)

<sup>10</sup> 2005 NECA USF Modification, pp. III-20-21.

<sup>11</sup> *Ibid.*, pp. III-23-24.

<sup>12</sup> *Id.*, p. III-24.

<sup>13</sup> *Id.*

quality of potential new variables are resolved.<sup>14</sup> Until then, it is important that the reduction limitation be maintained in order to avoid a flash cut to the statistical model.

Lastly, NECA has also presented a statistically valid cost per loop (CPL) formula that simulates the current CPL data of sample average schedule companies.<sup>15</sup> This formula accurately compares individual CPL amounts to available demand variables. NECA has provided this model both as validation of the increase in average schedule CPLs, and in recognition of the fact that the Commission directed it to use such a formula to determine 2004 average schedule USF payments.<sup>16</sup>

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.*, pp. III-31-34.

<sup>16</sup> *Id.*, pp. I-14, III-31. *See also, Federal-State Joint Board on Universal Service and National Exchange Carrier Association, Inc. Proposed 2004 Modification of Average Schedule Formulas*, CC Docket No. 96-45, Order, 18 FCC Rcd, 26619, 26622-26623, paras. 1, 6 (2003).

### **III. CONCLUSION**

For the reasons stated above, OPASTCO recommends the timely adoption of NECA's universal service formula modifications as they were filed, to be effective January 1, 2005 - December 31, 2005.

Respectfully submitted,

**THE ORGANIZATION FOR THE PROMOTION  
AND ADVANCEMENT OF SMALL  
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November 1, 2004

## **CERTIFICATE OF SERVICE**

I, Jeffrey W. Smith, hereby certify that a copy of the comments by the Organization for the Promotion and Advancement of Small Telecommunications Companies was sent by first class United States mail, postage prepaid, on this, the 1<sup>st</sup> day of November, 2004, to those listed on the attached list.

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**SERVICE LIST**

**CC Docket No. 96-45**  
**DA 04-3191**

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